

The Role of the European Union in the Consolidation of Market Economy in the Republic of Moldova

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Abstract

The European Union is by far the most important economic and development partner of the Republic of Moldova providing wide support for this young democracy to consolidate its fragile institutions. The main aim of this support is to improve the existing socio-economic relations in the country and, therefore, encourage the development of Moldovan market economy. Nowadays, euro- sceptics in the Republic of Moldova as well as in other countries put under the question the efficiency and effectiveness of policies EU has promoted in neighbouring countries. Supported by obscure interests and widely covered by biased mass media, they distort public opinion and denigrate EU backed achievements in Eastern Europe, including in the Republic of Moldova. The present paper comes to bring an impartial insight and a disinterested view upon the role of EU in consolidating market economy in neighbouring countries considering the experience of the Republic of Moldova in this sense. The research takes into account reliable data-sources on the base of which it is performed the quantitative and qualitative analyses and are drawn coherent conclusions. The research through the use of economic analysis provides consistent arguments assessing the impact of EU support upon Moldovan market economy and its institutional framework.

Key words: Transition; market economy; structural support; democratic institutions; Eastern Europe

JEL classification: F15; F34; F43; O11; O43

1. Introduction

The Republic of Moldova and the European Union have developed close cooperation relations in order to assure mutually convenient benefits in terms of economic development, social prosperity and political stability. Eventually, the deepened cooperation is supposed to lead to the integration of the Republic of Moldova into the European community as to assure the citizens with equal economic opportunities and standards of living as compared to other EU member states. However, the EU integration of Moldova depends on several important pillars and namely the rule of law,

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functional democracy and strong democratic institutions which make up the foundation of efficient market driven economy.

As a strategic economic and political partner of the Republic of Moldova, the European Union has provided extensive support to consolidate the weak democracy of Moldova and help this Eastern European nation in overpassing the political, economic and social consequences of transition. The assistance offered by the EU community, including technical, structural and financial support, aimed at increasing Moldovan economic competitiveness. Thus, the main goal of the present research is to analyse the evolution of EU-Moldova economic cooperation relations and to identify the main achievements and challenges the Republic of Moldova faces in this regard. In such a way, it is possible to evaluate the role of the European Union in the consolidation of Moldovan market economy through assessing the effects of assistance upon its fundamentals.

In the present political context, the research comes to impartially evaluate the effectiveness of European Union's backed support upon the development of the Republic of Moldova's socio-economic potential. The assessment comes to provide justified reasoning through the use of both qualitative and quantitative analyses. In this way, it is intended to demonstrate without the use of polemics real economic impact of EU guidance regarding the consolidation of market economy in the Republic of Moldova.

2. Literature review

The researched matter has broad literature coverage reasoning various views and spurring intense discussions on specific aspects. Nevertheless, the vast majority of authors which have been consulted come to underline the important role of the European Union in fostering economic development in the Republic of Moldova. They emphasize the community's role in helping Moldova to overpass the transition and improve the existing market driven relations in the country. So, according to Rodríguez-Pose (2013, p1034-1047) strong democratic institutions are at the corner-stone of efficient economy. The European Union assists in strengthening institutions in partner states including the Republic of Moldova. Šukytė (2015, p25-26) underlines the role of the EU in supporting Eastern European nations to overcome socio-economic challenges. Main focus of EU policies relies on empowering market relations in these countries through stimulating independent justice, free and unbiased institutions. The European Union tends to improve the economic and political framework of neighbouring Eastern European nations to assure the community with stable and predictable partners (Gromadzki, 2015, p12-18). Namely predictability and stability are essential conditions to develop active cooperation. Through developing the Eastern Partnership (EP) the EU created an important platform to guide the EP member countries in re-forming their institutions and socio economic relations based on EU experience (Forgo, 2015, p24-26). Some national researchers on this matter have expressed the necessity in deepening the cooperation with the European Union in order to re-ignite economic activity in the country. Essential conditions to foster economic activity are strong judicial and institutional framework, rule of law, transparent bureaucracy and facilitated business environment (Gațcan, 2015,

p45-46 and Crudu, Ignatov, 2016, p85-101). Boțan (2014, p83-95) underlines the role of Association Agreement with the European Union in re-enforcing Moldovan capacities in attracting both national and foreign investments and, therefore, stimulate economic growth.

3. Methodology

Research methodology is based on both qualitative and quantitative analyses taking into consideration the fundamentals of the synergistic approach. In such a way it is possible to research various aspects of the study matter and, therefore, reach more comprehensive result and conclusion. Within this framework it is considered various socio-economic indicators and relevant relations are analysed. Consequently, by cumulating all findings of the research a general assessment of the role of the European Union in the consolidation of Moldovan market economy is provided.

4. EU development assistance provided to the Republic of Moldova

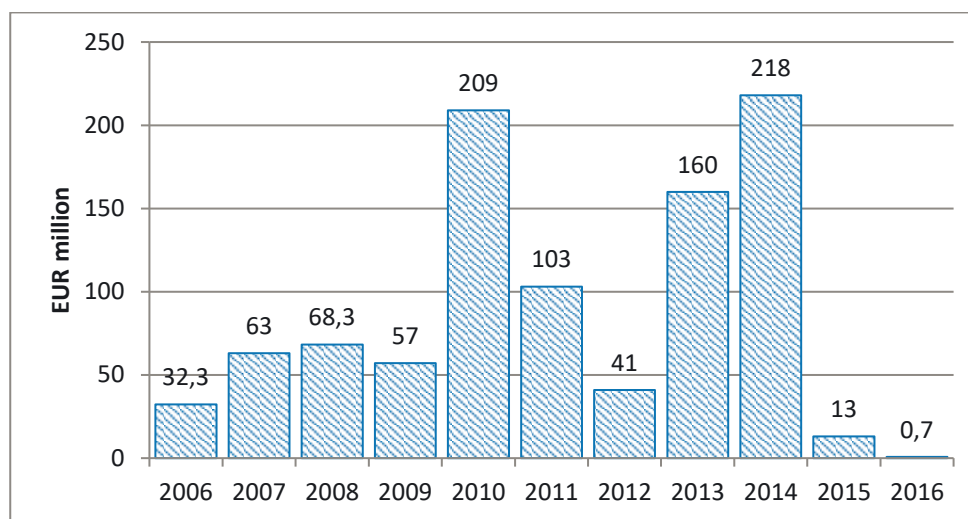
The external assistance provided by the European Union towards the Rep. of Moldova is an important component of external EU policy to stimulate socio-economic development and reformation of the Republic of Moldova according to the EU standards. The external assistance was provided through a variety of instruments intended to realise specific goals agreed both by the European and Moldovan policy makers. The external assistance received by the Republic of Moldova includes financial allocations, structural funding, technical assistance, humanitarian aid, grants and low-interest rate credits as well as budgetary support for different objectives including stabilising the external balance of payments.

In the period of 1991-2007, the Republic of Moldova has benefited extensively from external assistance of the European Union. Thus, during this period around EUR 137.6 million were directed towards TACIS National Programme, EUR 87 million as macro-financial assistance, EUR 35.6 million to improve food security, EUR 26.15 million to TACIS Regional programme and EUR 22.7 million to TACIS trans-border cooperation. Foreign assistance to other directions amount to slightly less than EUR 12 million. It is necessary to remark that during this period only for the y. 2006 it was allocated funding of EUR 32.3 million to different goals while for the y. 2007 allocations reached EUR 63 million. In the y. 2008, the Republic of Moldova has benefited from EUR 68.3 million only through the framework of ENP (EU Delegation to Moldova) (Infokit, 2008, p4-15).

Since the y. 2009, the EU commitments regarding the assistance to be provided for the Republic of Moldova have increased as the state assumed European values and reforms to reach the EU integration requirements. The main instrument through which the European Union provided funding in the period of y. 2009-2016 was the mechanisms regulated by the ENP framework. The economic dialogue with the Republic of Moldova has deepened, and therefore, the areas of European funding enlarged. In order to reduce the impact of world crisis upon the Moldovan economy, EU provided direct macro-

financial assistance intended to balance the payments' accounts of the Republic of Moldova. There were also undertaken large commitments in reforming the country, including the reforms in key sectors such as justice, public administration, police and border management. Besides these, through ENP framework, it was provided considerable support to education, agriculture, industry and related sectors as to modernise the country as a whole. So, EUR 700 million were allocated by the EU within the period of y. 2009-2014 (Bani.md), and other funding ranging between 335 million and 410 million was intended to be allocated in the period of y. 2014-2017, financing conditioned by the implementation of structural reforms assumed by the Republic of Moldova (ENP).

Figure 1. Foreign assistance provided by the European Union to the Rep. of Moldova, (EUR million), y. 2006-2016



Source: Designed by the author based on Government data.
Available online at: gov.md/Europa

As it can be remarked, the European Union has provided foreign development assistance to the Republic of Moldova in the period of y. 2006-2016 amounting to almost EUR 1 billion. This is a considerable input towards the development of internal country's capacities taking into consideration the socio-economic dimension. In such a way, the European Union proved to be the biggest donor of funding reaching almost 30 % weight. There have been implemented various projects aimed at strengthening the Republic of Moldova's internal institutional framework, functionality of the market economy in special, which are essential conditions for the socio-economic prosperity of the country. It is necessary to note the fact that foreign development assistance is granted by the developed countries to developing one and not always is an indicator proving the melioration of the socio-economic environment. In such a way, if not properly managed, development assistance could have an adverse effect upon country's balance of

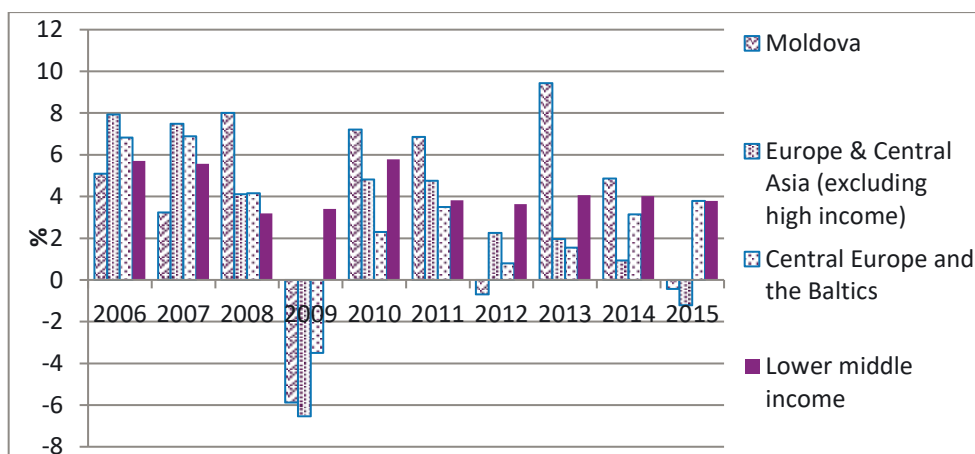
payments raising the level of debt without a visible economic impact which is caused by bureaucracy and wide-spread corruption.

5. Correlation between EU development assistance and selected indicators of economic development of the Republic of Moldova

It has been calculated the correlation index between the levels of foreign development assistance received by the Republic of Moldova from the European Union in the period of y. 2006-2016 and the evolution of several indicators of economic and social efficiency during the same time.

Firstly, it is necessary to examine the influence of European assistance upon the evolution of country's GDP per capita growth, as it is one of the most important indicators of the socio-economic wellbeing dynamics of the population (figure 2). The evolution of Moldovan GDP per capita growth is assessed in comparison to the same indicator of the following groups of countries including Europe & Central Asia (excluding high income), Central Europe and the Baltics and Lower middle income countries, classification provided by the World Bank. Thus, it can be highlighted that Moldova's GDP per capita began to grow faster than the indicators of the countries mentioned in the figure 2 as the degree of economic cooperation with the European Union went up. In such a way, it can be remarked that there is a moderate positive correlation of 0.53 between EU provided assistance and the evolution of GDP per capita reported by Moldova. This fact reflects favourable impact of EU assistance upon the general societal wellbeing in the country. Taking into consideration the data presented in the figure 2 and the calculated correlation, it can be generally inferred that the increase in the level of economic cooperation with the European Union has favourably influenced the economic development of the Republic of Moldova.

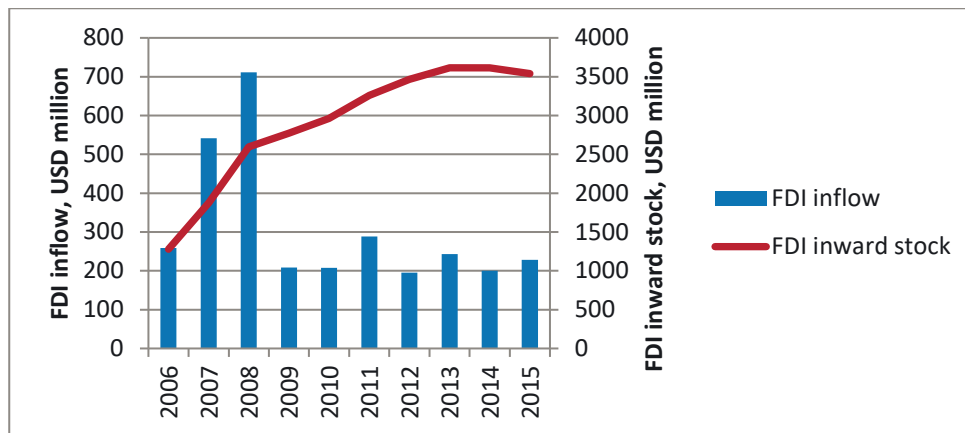
Figure 2. GDP per capita growth (annual %)



Source: Designed by the author based on data provided by the World Bank.
Available at: www.worldbank.org

On the other hand, it has been registered negative correlation of 0.27 between EU provided assistance and the FDI inflows in the Republic of Moldova. This fact means that development assistance has negative impact upon the FDI competitiveness in the country. So, it can be inferred that the allocation of development assistance creates artificial competition to foreign direct investments. In this way it can be explained the weak performance of Moldova in terms of FDI in the post crisis years (figure 3).

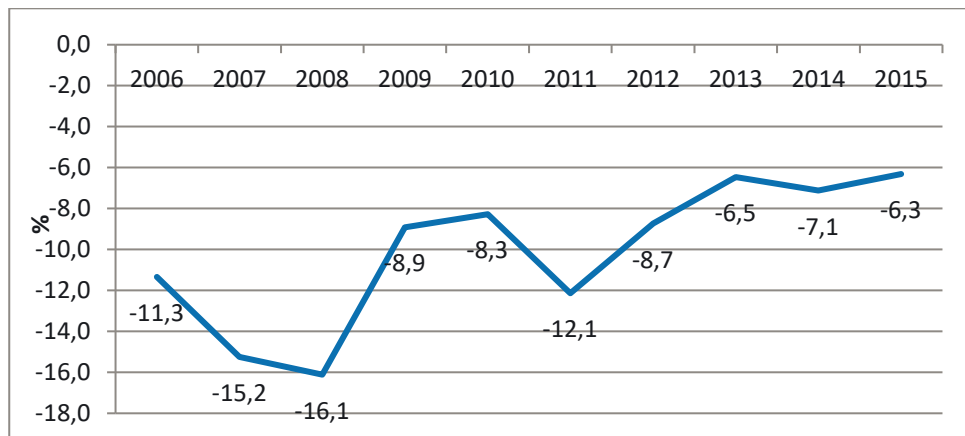
Figure 3. FDI inflow in the Rep. of Moldova, (USD million)



Source: Designed by the author based on data provided by UNCTAD.
Available at: www.unctad.org

There was also found insignificant positive correlation of 0.32 between the EU development assistance and the current account to GDP ratio (figure 4). This fact indicates weak influence of European development assistance upon the export competitiveness of the Republic of Moldova.

Figure 4. Current Account to GDP ratio of the Republic of Moldova, (%)



Source: Designed by the author based on the information provided by IMF.
Available at: www.imf.org

So, from the economic point of view it can be generally stated that the EU development assistance provided to the Republic of Moldova has a positive impact upon the overall country's economic performance, the fact explained by moderate correlation of 0.53 with the GDP per capita evolution. On contrary, the effects of development assistance upon external competitiveness are rather weak because of the tendency of assistance to compete out the investments. It was also demonstrated that assistance received by the Republic of Moldova did not significantly correlated with the current account to GDP ratio which highlights the idea that the development assistance is rather directed on supporting current budgetary expenses and not capital investments.

6. EU's role in consolidation Moldovan business and administrative environments

The European Union has offered much technical and financing support to the Republic of Moldova in order to consolidate its business environment as the main driver of economic growth. One of the most relevant indicators reflecting the situation in the business field is the Ease of Doing Business index provided by the World Bank. This index allows understanding the country's efficiency and performance regarding the main connected to business issues including the procedures of starting a business, dealing with construction permits, getting electricity, registering of property, getting credit, protecting minority investors, paying tax, trading across borders, enforcing contracts and resolving insolvency. So, by examining this index it is analysed the evolution of overall business performance through the use of various dimensions reflecting generally the ease of doing business and its confidence. In such a way based on the data provided in the table 1, it can be remarked that the Republic of Moldova has considerably improved its positions regarding the Ease of Doing Business ranking from 83rd position in y. 2006 to 52nd in y. 2016. This fact means that the economic cooperation with the EU has positively influenced the business environment. The European Union's role in the consolidation of Moldovan business environment is determinative.

Table 1. The rank of Rep. of Moldova according to the Ease of Doing Business Index

Year	2006	2007	2008	2009	2010
Rank of Moldova	83 (out of 155)	103 (out of 175)	92(out of 178)	103 (out of 181)	94 (out of 183)
2011	2012	2013	2014	2015	2016
90 (out of 183)	81(out of 182)	83 (out of 185)	78 (out of 189)	63 (out of 189)	52 (out of 189)

Source: Designed by the author based on data provided by the World Bank.

Available at: www.worldbank.org

Despite the achievements reported by the Republic of Moldova in terms of business environment improvement, it is necessary to remark the lack of efficiency in the area of combating corruption in Moldovan bureaucratic and judicial systems. The European Union concentrated much financial resources to assist in reforming these Moldovan sectors. Yet the efforts proved to fail due to rigidity and reluctance of Moldovan government and connected factors to implement reforms they were committed to. So, in order to remark the fact that the Republic of Moldova poorly managed reforms intended to assure stable and transparent institutional framework to provide the economy with a more lucrative environment intended to accelerate country's socio economic development, it will be analysed the index of corruption perception provided by the Transparency International (table 2).

Table 2. Corruption Perception Index of the Rep. of Moldova in the period of y. 2006-2015

Year	2006	2007	2008	2009	2010
Score 100 max	32	28	29	33	29
Rank	79 (out of 163)	111 (out of 179)	109 (out of 180)	89 (out of 180)	105 (out of 178)
Year	2011	2012	2013	2014	2015
Score 100 max	29	36	35	35	33
Rank	112 (out of 182)	94 (out of 174)	102 (out of 177)	103 (out of 175)	103 (out of 168)

Source: Designed by the author based on data provided by Transparency International. Available at: www.transparency.org

Taking into consideration the information provided in the table 2, it can be remarked that the Corruption Perception Index of Moldova registered alternating results. The highest position held by the country was 79th in 2006 while the lowest was 112th in 2011. The corruption is the most important problem of the Republic of Moldova which damages the investment and entrepreneurial activities causing institutional weaknesses and population poverty. Unless the problem of corruption is not solved the degree of economic cooperation with the European Union will have a superficial tent as the economic effectiveness of state will be under its potential. The problem of corruption destroys the European integration prospect of the Republic of Moldova, as the leading elite pursue other goals than those of population majority. In the y. 2015-2016 the problem of corruption caused mass uprisings of population which was outraged against high government hypocrisy and corruption (The New York Times, 2016). The main mistakes the European Union made in relation with the Republic of Moldova which could affect future economic cooperation were the legitimising attitude and passiveness regarding frauds and kleptocracy. Moreover, the European Union let the Moldovan governing elite to cover their underground activities with EU integration slogans. In such

a way, the EU image capital became used by individuals having high degree of distrust among the population (Kostanyan, 2015, p1-4).

7. Conclusion

Concluding it can be mentioned that the European Union is playing an important role in consolidating the market economy in the Republic of Moldova by providing support and development assistance to areas of most interest. Through the participation of the European Union it has been considerably improved the ease of doing business as well as it has been fostered the general socio-economic level of welfare of the population. In terms of investment and trade competitiveness the development assistance provided by the European Union had not a significant impact on the overall country's performance. This fact could be explained by the dominant priority of the EU which regards strengthening the institutional capacities of Moldova and only the secondary target being the improvement of economic, trade and investment performance of Moldova. Besides, it is necessary to underline that the role of EU in the consolidation of Moldovan market economy is diminished by a wide range of impediments in place which are indirectly set up to protect the current monopoly business interests in the state. So, some of the main impediments towards deepening the economic cooperation with the European Union are corruption, inefficient public administration and institutional ineffectiveness, lack of transparency in the sector of justice and authorities' reluctance towards the implementation of reforms in sectors of strategic importance for economic development of the Republic of Moldova.

So, in the period of y. 2006-2016 the European Union provided extensive assistance to the Rep. of Moldova in terms of technical advice and funding. Nevertheless, it should be mentioned that the EU has made several policy oversights in relation with Moldova affecting the efficiency of economic cooperation. Therefore, it can be mentioned the EU is inefficient when using the top-down approach in relation with the country. The fact which has created a discrepancy of understanding between the population and the European Union representatives caused by government distortions, the situation which worsens moving farther from Chisinau.

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